

**Statement of Chairman Tom Davis  
Government Reform Committee Hearing  
“New Century, New Process: A Preview of  
Competitive Sourcing for the 21<sup>st</sup> Century”  
Thursday, June 26, 2003**

Good morning, a quorum being present, the Committee on Government Reform will come to order. We are here today to examine the Administration’s recently issued revisions to Office of Management and Budget Circular A-76, the federal government’s competitive sourcing process. The Administration unveiled these revisions on May 29, 2003.

The revisions represent the first major overhaul to the A-76 process in twenty years. They are the product of a two-year effort that included discussions and negotiations with all stakeholders as well as a formal public notice and comment period.

For almost fifty years, it has been the policy of the federal government to rely on the private sector to supply its products and services, whenever possible. The A-76 Circular was first adopted in 1966 to formalize this policy, and required the government to conduct a comparison between the cost of performance by an agency and the cost of performance by the private sector.

Despite the Circular’s long history, A-76 cost comparisons have not been widely used by federal departments and agencies. While the Department of Defense has used the guidelines to compete functions ranging from computer services to commissary operations, few other agencies have used the process. Circular A-76 has been criticized over the years as being time consuming, expensive, and unnecessarily complicated, which has discouraged federal managers from using it.

Recognizing that the A-76 process was flawed, Congress enacted legislation to create a panel of experts to study the government's competitive sourcing policies. This group of experts, called the Commercial Activities Panel, was chaired by the Comptroller General and included representatives from government agencies, federal labor unions, private industry, and academia.

The revised Circular that is the subject of today's hearing extensively modifies the old process, following some, but not all of the recommendations of the Commercial Activities Panel. Under the old rules, commercial activities for which contractors and federal employees competed were awarded to the entity that offered the lowest cost to the government to perform the work. The comparison involved a two-step process where the price to perform the work by the winner of a competition among private companies was compared with an estimate of the cost of performance by the government.

The new rules, by contrast, provide for a one-step process, where all sources, including federal employees, can submit offers and compete for commercial activities at the same time. Although in most instances the work will be awarded to the lowest cost provider, in some limited cases, agencies may award a contract using a "best value" methodology, which allows competition to be decided on factors other than cost.

The revised Circular also eliminates most direct conversions, a process in which federal tasks performed by 10 or fewer federal employees could be outsourced to private companies without competition. Instead of direct conversions, the revised Circular A-76 permits a streamlined competition process for jobs involving 65 or fewer federal employees.

The new guidelines also set strict timeframes for completion of competitions. Streamlined competitions must be completed within 90 days, while standard competitions will normally take 12 months.

I have repeatedly stated that the federal government's ultimate objective when it comes to public-private competitions should be to pursue the best value for taxpayers. I think that the revisions to the A-76 process are a positive change that will result in savings of taxpayer dollars and greater efficiencies in government operations. The revisions are also central to facilitating the Administration's competitive sourcing initiative, which is one of the priorities outlined in the President's Management Agenda.

We have assembled excellent panels of witness who will discuss these important issues. I would like to thank each of our witnesses for appearing today.

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